

Comments of the City and County of San Francisco on the August 21, 2009 Straw
Proposal, Market Initiatives Roadmap

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The City and County of San Francisco (San Francisco) takes this opportunity to submit limited comments on the straw proposal's high priority ranking assigned to pursuing greater granularity in the current load aggregation pricing (LAP) areas. San Francisco objects to the high priority ranking assigned to this issue as unfounded and contrary to both prior-stated CAISO policy and FERC Orders. The majority of the investor-owned utilities (IOUs), the municipal utilities, the CPUC and others have disagreed that this issue should be considered high priority at this time. Some have vigorously objected on substantive grounds. Yet these objections are not reflected in the straw proposal priority rankings presented for discussion by stakeholders on August 28, 2009. San Francisco urges the CAISO to reconsider its position, take the comments of the opposing parties to heart and continue to rank greater granularity of LAP settlement as a low priority item just as it was for 2008.

San Francisco monitored this process and participated through development and support for the Comments submitted by CMUA in response to the July 20, 2009 High Priority Ranking Process. San Francisco has actively participated in support of LAP settlement since the original MD02 proposal was presented and considered at FERC. Originally, the CAISO responded directly to stakeholder equity concerns raised in response to its original proposal for 20 load settlement zones by filing a new proposal for

the current three (3) LAPs. See CAISO July 22, 2003 Filing, ER02-1656-015 and EL01-68-028. FERC adopted the current LAP zones equivalent to the service territories of the three IOUs. As the October 28, 2003 Order on MD02 noted, the CAISO supported use of LAPs sized to the incumbent IOUs' service territories since smaller areas would defeat the purpose of the LAP because the IOUs use average prices, but non-IOU customers would unfairly face the direct nodal pricing impacts in certain areas. The CAISO also noted that certain areas of the grid unduly limit access by customers in load pockets to competitive supply. For these equity reasons, the CAISO proposed and the FERC adopted the current scheme. Further, FERC found that doing so was consistent with the practices of the Eastern ISO's. See 105 FERC ¶61,140 at P64 and P65.

Since that time, FERC has urged the CAISO to consider greater granularity in LAPs for settlement of demand under LMP. In doing so, FERC has consistently deferred to the CAISO and stakeholders for the appropriate size or granularity of the LAP areas. See 112 FERC ¶61,310 at P20. Regarding timing, most recently, FERC gave the CAISO three years following start-up of MRTU (the target date given for MRTU Release 2) to reconsider the issue in light of experience with LMP under MRTU and for market participants to prepare and vet all issues with the CAISO before it developed a proposal to present to FERC. See 116 FERC ¶61,274 at P611 (September 2006 Order), upheld on Rehearing at 119 FERC ¶61,076 at P327. This is crucial because the equity issues affecting the majority of stakeholders have not changed since the 2003 Order first found LAP settlement reasonable. Specifically, 1) that the transmission grid, with its load pockets, represents investment decisions of the investor-owned utilities under prior market structures, 2) that retail customers of the investor-owned utilities would not "see"

disaggregated nodal prices because IOU retail rates are averaged and 3) that non-IOU customers would bear a disproportionate burden because they would not be protected by the IOUs' average rate structure,.

Further, the stakeholder process contemplated by FERC for determining the appropriate number and size of the LAP areas has not yet occurred. Should the CAISO persist in ranking this issue as "high priority," San Francisco urges the CAISO to take no further steps toward implementation of greater granularity of the current LAP areas until a stakeholder process commences and concludes after examining the appropriateness of further disaggregation, taking into consideration actual market results and analysis of the benefits and costs of greater disaggregation, the feasibility and equity of any proposed disaggregation of the current LAP areas, the impacts on other CAISO processes including previously-allocated long term CRRs, and the need for any mitigation measures to address equity issues.